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AUDITED FINANCIAL STATEMENTS & SUPPLEMENTAL INFORMATION

Years Ended June 30, 2019 and 2018
With Reports of Independent Auditors

West Virginia University Foundation, Inc.

Financial Statements

Years Ended June 30, 2019 and 2018

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Independent Auditors' Report

Board of Directors
West Virginia University Foundation, Inc.
Morgantown, West Virginia

We have audited the accompanying financial statements of West Virginia University Foundation, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activity, cash flows and program support for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Virginia University Foundation, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, West Virginia University Foundation, Inc. adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. Our opinion is not modified with respect to this matter.

Dixon Hughes Goodman LLP

**Charleston, West Virginia
September 23, 2019**

West Virginia University Foundation, Inc.
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 63,308,284	\$ 47,755,283
Contributions receivable, net - Note 3	51,222,448	45,230,571
Other receivables, net - Note 3	4,391,654	4,819,856
Investments carried at fair value - Note 4	1,643,442,484	1,623,128,584
Land, building, and equipment, net - Note 7	16,782,420	17,596,360
Beneficial interests in external trusts at fair value	40,343,008	38,641,116
Other assets - Note 8	<u>6,268,452</u>	<u>6,173,454</u>
Total assets	<u>\$ 1,825,758,750</u>	<u>\$ 1,783,345,224</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Notes payable - Note 12	\$ 22,226,990	\$ 25,281,034
Accounts payable and accrued expenses	6,968,262	7,899,520
Accrued retirement benefits and deferred compensation - Note 13	1,966,875	1,613,726
Annuities payable and unitrusts	14,977,061	15,559,749
Funds held in custody for others - Note 15	<u>858,127,604</u>	<u>851,668,284</u>
Total liabilities	904,266,792	902,022,313
Net assets:		
Without donor restrictions	44,148,578	41,180,626
With donor restrictions		
Non-endowed	172,476,666	151,818,922
Endowed	<u>704,866,714</u>	<u>688,323,363</u>
Total with donor restrictions	<u>877,343,380</u>	<u>840,142,285</u>
Total net assets	<u>921,491,958</u>	<u>881,322,911</u>
Total liabilities and net assets	<u>\$ 1,825,758,750</u>	<u>\$ 1,783,345,224</u>

See accompanying notes.

West Virginia University Foundation, Inc.
Statements of Activity
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and gains:						
Contributions	\$ 827,289	\$ 78,463,123	\$ 79,290,412	\$ 1,956,906	\$ 77,402,064	\$ 79,358,970
Investment earnings:						
Net interest and dividends	11,523,932	2,948,234	14,472,166	10,541,458	1,607,323	12,148,781
Net realized gains	1,564,720	23,006,770	24,571,490	1,566,970	18,114,337	19,681,307
Net unrealized gains (losses)	4,261,784	(650,548)	3,611,236	1,923,865	20,131,706	22,055,571
Investment earnings	17,350,436	25,304,456	42,654,892	14,032,293	39,853,366	53,885,659
Lease revenue	1,975,000	-	1,975,000	1,975,000	-	1,975,000
Other revenue	3,776,003	16,841,979	20,617,982	4,171,869	12,993,638	17,165,507
Net assets released from restrictions	82,034,874	(82,034,874)	-	102,031,876	(102,031,876)	-
Total revenues and gains	105,963,602	38,574,684	144,538,286	124,167,944	28,217,192	152,385,136
Expenses and support:						
University support:						
Scholarships	17,075,807	-	17,075,807	22,882,729	-	22,882,729
Salaries and benefits	24,584,656	-	24,584,656	22,090,832	-	22,090,832
Travel	2,369,304	-	2,369,304	2,307,551	-	2,307,551
Meetings and events	4,555,877	-	4,555,877	3,622,627	-	3,622,627
Professional services	3,900,077	-	3,900,077	4,495,740	-	4,495,740
Capital projects and equipment	20,754,340	-	20,754,340	38,277,165	-	38,277,165
Supplies and materials	3,453,019	-	3,453,019	5,076,006	-	5,076,006
Other support	8,002,462	-	8,002,462	6,876,674	-	6,876,674
Total University support	84,695,542	-	84,695,542	105,629,324	-	105,629,324
Foundation support:						
Fundraising	10,802,282	-	10,802,282	10,157,928	-	10,157,928
Fiduciary	5,419,792	-	5,419,792	4,723,920	-	4,723,920
Total Foundation support	16,222,074	-	16,222,074	14,881,848	-	14,881,848
Total University and Foundation Support	100,917,616	-	100,917,616	120,511,172	-	120,511,172
Interest, depreciation, and other	2,078,034	-	2,078,034	2,168,456	-	2,168,456
Total expenses before provision and revaluation	102,995,650	-	102,995,650	122,679,628	-	122,679,628
Provision for uncollectible receivables	-	2,931,944	2,931,944	-	551,560	551,560
Net (gain) loss on revaluation of external trusts	-	(1,701,892)	(1,701,892)	-	2,999,443	2,999,443
Net loss (gain) on revaluation of annuities payable and unitrusts	-	143,537	143,537	-	(231,471)	(231,471)
Total expenses and support	102,995,650	1,373,589	104,369,239	122,679,628	3,319,532	125,999,160
Change in net assets	2,967,952	37,201,095	40,169,047	1,488,316	24,897,660	26,385,976
Net assets at beginning of year	41,180,626	840,142,285	881,322,911	39,692,310	815,244,625	854,936,935
Net assets at end of year	\$ 44,148,578	\$ 877,343,380	\$ 921,491,958	\$ 41,180,626	\$ 840,142,285	\$ 881,322,911

See accompanying notes.

West Virginia University Foundation, Inc.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 40,169,047	\$ 26,385,976
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Actuarial loss (gain) on annuities payable	143,537	(231,471)
Provision for uncollectible receivables	2,931,944	551,560
Contributions restricted for long-term purposes	(14,299,420)	(24,147,168)
Depreciation expense	1,288,782	1,316,063
Net realized gains on investments	(24,571,490)	(19,681,307)
Net unrealized gains on investments	(3,611,236)	(22,055,571)
Revaluation of beneficial interest in external trusts	(1,701,892)	2,999,443
Other non-cash revenue	(2,000,000)	(1,000,000)
Changes in:		
Contributions receivable	(8,923,821)	3,220,971
Investments held in custody	13,333,307	(69,218,283)
New beneficial interest in external trusts	-	(2,009,385)
Accounts payable and accrued expenses	(931,258)	(2,603,895)
Funds held in custody for others	6,459,320	71,200,941
Other assets and liabilities	(39,872)	447,466
Net cash provided by (used in) operating activities	<u>8,246,948</u>	<u>(34,824,660)</u>
Cash flows from investing activities:		
Purchase of land, building, and equipment	(474,842)	(302,235)
Purchase of investments	(364,112,341)	(261,188,726)
Proceeds from sales and liquidations of investments	358,647,860	274,890,380
Net cash (used in) provided by investing activities	<u>(5,939,323)</u>	<u>13,399,419</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term purposes	14,299,420	24,147,168
Payments of notes payable	(1,054,044)	(1,020,078)
Net cash provided by financing activities	<u>13,245,376</u>	<u>23,127,090</u>
Change in cash and cash equivalents	15,553,001	1,701,849
Cash and cash equivalents at beginning of year	<u>47,755,283</u>	<u>46,053,434</u>
Cash and cash equivalents at end of year	<u>\$ 63,308,284</u>	<u>\$ 47,755,283</u>
Supplementary information:		
Interest paid	<u>\$ 641,066</u>	<u>\$ 676,632</u>

See accompanying notes.

West Virginia University Foundation, Inc.
Statements of Program Support
Years Ended June 30, 2019 and 2018

	2019								
	University Support				University Support Total	Foundation Support			Total University & Foundation Support
	University Campus	Health Sciences Campus	Intercollegiate Athletics	General University Support	University Support Total	Fundraising	Fiduciary	Foundation Support Total	
Scholarships	\$6,224,366	\$ 2,278,839	\$ 3,907,268	\$ 4,665,334	\$17,075,807	\$ -	\$ -	\$ -	\$17,075,807
Salaries and benefits	6,385,379	15,462,726	1,533,927	1,202,624	24,584,656	7,213,463	3,423,961	10,637,424	35,222,080
Travel	1,401,734	622,212	325,157	20,201	2,369,304	203,405	113,118	316,523	2,685,827
Meetings and events	2,021,963	1,477,054	704,370	352,490	4,555,877	446,263	248,178	694,441	5,250,318
Professional services	1,060,371	2,153,076	294,411	392,219	3,900,077	1,129,183	627,966	1,757,149	5,657,226
Capital projects and equipment	6,503,207	730,851	11,502,622	2,017,660	20,754,340	526,345	292,714	819,059	21,573,399
Supplies and materials	1,365,657	1,832,209	106,254	148,899	3,453,019	150,506	83,700	234,206	3,687,225
Other expenses	3,236,739	2,214,369	1,737,204	814,150	8,002,462	1,133,117	630,155	1,763,272	9,765,734
Total support	<u>\$28,199,416</u>	<u>\$ 26,771,336</u>	<u>\$ 20,111,213</u>	<u>\$ 9,613,577</u>	<u>\$84,695,542</u>	<u>\$10,802,282</u>	<u>\$5,419,792</u>	<u>\$ 16,222,074</u>	<u>\$100,917,616</u>

General University Support includes scholarships not designated to a specific campus and other support for academic and research initiatives.
Net assets released from restrictions totaled \$82,034,874; of that \$61,645,366 was released from non-endowed funds and \$20,389,508 from endowed funds.

	2018								
	University Support				University Support Total	Foundation Support			Total University & Foundation Support
	University Campus	Health Sciences Campus	Intercollegiate Athletics	General University Support	University Support Total	Fundraising	Fiduciary	Foundation Support Total	
Scholarships	\$ 6,146,768	\$ 1,890,586	\$ 10,936,391	\$ 3,908,984	\$ 22,882,729	\$ -	\$ -	\$ -	\$ 22,882,729
Salaries and benefits	5,670,034	14,414,476	1,318,548	687,774	22,090,832	7,167,260	3,372,828	10,540,088	32,630,920
Travel	1,417,043	598,311	126,419	165,779	2,307,552	176,202	82,919	259,121	2,566,673
Meetings and events	1,609,272	1,079,134	510,979	423,241	3,622,626	647,267	304,596	951,863	4,574,489
Professional services	1,102,076	2,031,380	88,124	1,274,160	4,495,740	958,012	450,829	1,408,841	5,904,581
Capital projects and equipment	7,521,188	5,362,373	22,732,460	2,661,145	38,277,166	654,940	308,207	963,147	39,240,313
Supplies and materials	1,373,165	3,404,943	82,044	215,854	5,076,006	104,751	49,295	154,046	5,230,052
Other Expenses	2,813,801	1,016,692	1,453,682	1,592,498	6,876,673	449,496	155,246	604,742	7,481,415
Total Support	<u>\$ 27,653,347</u>	<u>\$ 29,797,895</u>	<u>\$ 37,248,647</u>	<u>\$ 10,929,435</u>	<u>\$ 105,629,324</u>	<u>\$ 10,157,928</u>	<u>\$ 4,723,920</u>	<u>\$ 14,881,848</u>	<u>\$ 120,511,172</u>

General University Support includes scholarships not designated to a specific campus and other support for academic and research initiatives.
Net assets released from restrictions totaled \$102,031,876; of that \$84,770,208 was released from non-endowed funds and \$17,261,668 from endowed funds.

See accompanying notes.

Notes to Financial Statements

1. Significant Accounting Policies and Other Matters

The West Virginia University Foundation, Inc. (the "Foundation") is a public 501(c)(3) tax-exempt organization incorporated in 1954. The Foundation's primary purpose is to enrich the lives of those touched by West Virginia University (the "University") by maximizing private charitable support and providing services to the University and its affiliated organizations. The Foundation is governed by an independently elected Board of Directors not otherwise affiliated with the University. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation.

Basis of accounting

The financial statements presented herein have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these statements requires management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. Actual results may differ significantly from management's estimates.

Fair value estimates

Fair value estimates are based on an assessment of the present status and expected future benefits and obligations associated with the respective financial asset or liability. External trusts are valued at the expected rate of return for similarly invested assets, which ranged from 3.50% to 6.70% at June 30, 2019 and 4.75% to 6.57% at June 30, 2018. Split interest agreements are valued at the expected rate of return on the life income portfolio, which ranged from 4.30% to 5.30% at June 30, 2019 and 5.01% to 5.66% at June 30, 2018. Individual contributions receivable are valued at unsecured consumer lending rates ranging from 4.60% to 4.61% at June 30, 2019 and 5.56% to 5.57% at June 30, 2018, based on the anticipated collection date of the receivable. Corporate contributions receivable are valued at the current yield on corporate debt ranging from 2.18% to 2.35% and 2.70% to 3.38% at June 30, 2019 and 2018, respectively, based on the anticipated collection date of the receivable.

Cash and cash equivalents

The Foundation considers highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. From time to time, the balance in certain Foundation deposit accounts at financial institutions may exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit.

Contributions and contributions receivable

Contributions are recorded at estimated fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increases that net asset class. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activity as net assets released from restriction.

Unconditional promises to give that are expected to be received within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be received in future years are recorded at the present value of their estimated future cash flows. Accretion of discounts is included in the contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

The Foundation provides an allowance for the potential uncollectible portion of unconditional promises to give. The allowance for uncollectible contributions receivable is based upon management's judgment, including such factors as overall economic conditions, current and historical loss experience, a review of the status of specific pledges and recent collection activity.

West Virginia University Foundation, Inc.
Notes to Financial Statements

Unconditional promises to give from two donors accounted for approximately 28% of the Foundation's net contributions receivable at June 30, 2019 and 2018.

Student loans

The Foundation provides funding for unsecured loans to University students at interest rates determined by the terms of the respective donor gift agreement. These loans require payment of principal and interest once the student has graduated. Balances due to the Foundation are reflected as other receivables on the statements of financial position, net of allowances for doubtful accounts. Allowances are determined based primarily on historical student loan repayment rates. If an account becomes two years past due, it is deemed to be fully uncollectible.

Investments

Investments in fixed income, equity, marketable alternative investments, and non-marketable alternative investments are reported at estimated fair value as defined in Note 5. Additional information on investments and valuation methods is included in Notes 4 and 5.

Land, building, and equipment

Land, building, and equipment are recorded at cost when purchased, or fair value if acquired by gift. The Foundation's capitalization policy requires purchases of property and equipment in excess of \$5,000 to be recorded as a capital asset. Depreciation is calculated over the estimated useful lives of the building or equipment using the straight-line method. Maintenance and repairs of existing facilities are charged to operating expense as incurred. Equipment purchased by departments of the University utilizing Foundation funds is recognized in expense as University support and not included in the Foundation's statements of financial position.

Beneficial interests in external trusts

The Foundation maintains the irrevocable right to receive the income earned on certain trust assets held by third parties. The Foundation records its beneficial interest in a trust at the lesser of the fair value of the underlying investments or the present value of the estimated future receipts from the trust.

Annuities and unitrusts payable

Under the terms of the Foundation annuity and trust agreements, the donors or their designees receive either a predetermined distribution amount or fixed rate return based upon the estimated fair value of the trust. The Foundation records the related assets held in trust at estimated fair value and the liability is recorded at estimated fair value of the present value of future payments.

Funds held in custody for others

The Foundation holds and invests funds for the University and its affiliates under agency agreements. The investments and other funds are reported as assets, while the corresponding liability is reported in funds held in custody for others.

Net assets

The Foundation has classified its net assets and revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions (see Note 10). Below is a summary of those classifications:

Without Donor Restrictions:

This includes assets and contributions that are not restricted by donors or for which restrictions have expired. Net assets without donor restrictions also include assets that have been designated by the Foundation's Board of Directors for specific purposes.

With Donor Restrictions:

This includes assets and contributions for which the donor stipulates that resources be maintained permanently or for which the donor has imposed restrictions that permit the Foundation to use or expend the donated assets for specified purposes are net assets with donor restrictions.

Noncash contributions

The Foundation receives noncash contributions including gifts-in-kind of equipment, property, supplies, materials, collection items, software, real property, and contributed services. Gifts that are used, held or sold by the Foundation are recognized for financial reporting purposes as contribution revenue. Gifts that are not used, held or sold by the Foundation are considered an intermediary transaction and not recognized for financial reporting purposes.

The Foundation recognizes noncash contributions used or held at estimated fair value based upon market price assumptions, donor cost, replacement cost, price listings, similar sales or services, published catalogs, vendor invoices, independent appraisals, expert opinions, estimates, averages, approximations, or other relevant information. During the years ended June 30, 2019 and 2018, the Foundation recognized noncash contributions of \$133,350 and \$572,574, respectively, in contribution revenue.

Tax status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Foundation follows the Financial Accounting Standards Board's (FASB) authoritative guidance on accounting for uncertainty in income taxes. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit or obligation of those tax positions to be recognized in the financial statements. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations at June 30, 2019 and June 30, 2018.

Functional allocation of expense

The costs of program and supporting services activities have been summarized on the functional basis in the statement of activities. The statements of program support present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain reclassifications were made to the June 30, 2018 financial statements to conform with the June 30, 2019 presentation in compliance with ASU 2016-14. Such reclassifications did not impact the prior year change in net assets.

Recent accounting pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Foundation.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted as of the beginning of the fiscal year of adoption. Management is currently evaluating the impact the adoption of this ASU may have on the Foundation's financial statements. Upon adoption by the Foundation, management anticipates that the primary impact will be the elimination of certain disclosures related to fair value of financial instruments not measured at fair value on the statement of financial position, which were previously required because the Foundation had more than \$100 million in assets.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The amendments in this ASU are effective for the Foundation for fiscal years beginning after December 15, 2018, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. Management has not yet determined what the effects of adopting this ASU will be on its financial statements.

West Virginia University Foundation, Inc.
Notes to Financial Statements

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU is to be applied on a modified prospective basis, but retrospective application is permitted. Under a modified prospective basis, in the first set of financial statements following the effective date the amendments are to be applied to agreements that are either: (1) not completed as of the effective date, or (2) entered into after the effective date. The amendments in this update are to be applied only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance. No prior-period results will be restated, and there will be no cumulative-effect adjustment to the opening balance of net assets or retained earnings at the beginning of the year of adoption. The ASU is effective for fiscal years beginning after December 15, 2019 and is not expected to have a material impact on the Foundation.

During fiscal year 2019, the Foundation adopted ASU No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The 2018 financial statements have been adjusted to reflect retrospective application of the new accounting guidance.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

<u>Net Asset Classifications</u>	<u>ASU 2016-14 Classifications</u>			<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>Non-Endowed</u>	<u>Endowed</u>	
As previous presented:				
Unrestricted	\$ 40,611,919	\$ -	\$ -	\$ 40,611,919
Temporarily restricted	116,171	151,818,922	169,433,985	321,369,078
Permanently restricted	<u>452,536</u>	<u>-</u>	<u>518,889,378</u>	<u>519,341,914</u>
Net assets as reclassified	<u>\$ 41,180,626</u>	<u>\$ 151,818,922</u>	<u>\$ 688,323,363</u>	<u>\$ 881,322,911</u>

West Virginia University Foundation, Inc.
Notes to Financial Statements

2. Liquidity and Availability of Financial Assets

The following includes financial assets as of June 30, reduced by amounts not available for general use within one year of the balance sheet date. Amounts available for general use include financial assets without donor restriction or internal designations. Internal designations include amounts set aside by the Board for the Foundation operating costs or other scheduled projects. These designated amounts could be drawn upon with Board approval.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 63,308,284	\$ 47,755,283
Short term receivables	1,469,066	1,395,095
Short term investments	<u>132,771,573</u>	<u>112,917,293</u>
Total financial assets available	<u>197,548,923</u>	162,067,671
Less restricted and designated financial assets:		
<u>University and affiliated organizations</u>		
Restricted by donor to the University	(131,094,002)	(118,880,467)
Restricted to funds held in custody for others	(31,664,896)	(12,851,917)
Designated by Board to the University and other	<u>(4,723,282)</u>	<u>(5,109,149)</u>
Available to the University and affiliated organizations	<u>(167,482,180)</u>	(136,841,533)
<u>Foundation</u>		
Operating reserve	(16,423,000)	(15,673,000)
Designated by the Board to the Foundation	<u>(1,296,255)</u>	<u>(1,717,071)</u>
Available to the Foundation	<u>(17,719,255)</u>	<u>(17,390,071)</u>
Financial assets available for general use by the Foundation or University	<u>\$ 12,347,488</u>	<u>\$ 7,836,067</u>

Unrestricted funds

Donations received without donor restriction are governed by the Foundation Discretionary Gifts Protocol. All unrestricted donations are designated by the Foundation Board for University initiatives or other University commitments. Therefore, the Foundation does not hold a portfolio of unrestricted donations available for general use.

Operating reserve

These funds constitute a board-designated reserve with the objective of setting funds aside to be drawn in the event of financial distress or an immediate liquidity need outside the typical operating cycle. The target for this reserve is the amount needed to fund 12 months of the Foundation operating budget and therefore this amount is not available for general use. The amount set aside for the operating reserve requires the use of estimates which could vary significantly from amounts budgeted. Reserve amounts above the minimum target range of 12 months can be made available to the Foundation or the University at the discretion of the Board and are considered available for general use. As of June 30, 2019 and 2018 the operating reserves totaled \$21,446,775 and \$20,593,837 and the 12-month budget target was \$16,423,000 and \$15,673,000, respectively. The operating reserve is invested and managed under a separate Reserve Policy and is held in interest bearing cash or cash-equivalent accounts.

At June 30, 2019 and 2018 the Foundation held assets of \$1,296,255 and \$1,717,071, respectively, appropriated from operating reserves by the Board and designated to the Foundation for specific projects.

West Virginia University Foundation, Inc.
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Liquidity management

The foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. As part of liquidity management, the Foundation has an asset/liability management program to structure its financial assets to be available as its obligations from each financial asset category come due, including Foundation obligations and amounts drawn by the University to support its mission-related initiatives. These amounts are primarily invested in cash and cash equivalents, short-term fixed income funds and some marketable equity funds.

To help manage unanticipated liquidity needs, the Foundation has a committed line of credit in the amount of \$10 million established with a local West Virginia Bank. The Foundation has never drawn upon this line.

3. Receivables

The following table summarizes contributions and other receivables and the related allowances as of June 30:

	<u>2019</u>	<u>2018</u>
Contributions receivable:		
Amounts to be received within one year	\$ 17,547,506	\$ 21,331,663
Amounts to be received within two to five years	34,565,359	24,462,712
Amounts to be received after five years	<u>18,126,595</u>	<u>18,520,339</u>
Contributions receivable before allowances and unamortized discount	<u>70,239,460</u>	64,314,714
Specific allowance for uncollectible contributions	(4,899,338)	(3,139,742)
General allowance for uncollectible contributions	(5,692,992)	(5,397,848)
Unamortized discount	<u>(8,424,682)</u>	<u>(10,546,553)</u>
Contributions receivable, net	<u>\$ 51,222,448</u>	<u>\$ 45,230,571</u>
Other receivables, net:		
Student loans, net of allowance of \$730,000 and \$628,000, respectively	\$ 2,804,573	\$ 2,948,782
Notes, advances, and other	<u>1,587,081</u>	<u>1,871,074</u>
Other receivables, net	<u>\$ 4,391,654</u>	<u>\$ 4,819,856</u>

West Virginia University Foundation, Inc.
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4. Investments

The estimated fair values of investments at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 86,360,909	\$ 34,741,833
Separate accounts:		
Domestic equity	38,698,686	39,172,325
Domestic fixed income	<u>2,187,229</u>	<u>2,434,136</u>
	40,885,915	41,606,461
Exchange traded funds:		
Domestic equity	498,348,198	501,831,726
Domestic fixed income	<u>80,863,896</u>	<u>82,412,570</u>
	579,212,094	584,244,296
Mutual funds:		
Domestic equity	-	20,889,616
International equity	163,953,369	173,790,738
Global equity	-	43,714,402
Domestic fixed income closed end	-	2,677,944
Domestic fixed income	165,266,653	127,873,772
Real estate	12,350,838	9,384,146
Natural resources	<u>9,181,990</u>	<u>47,095,337</u>
	350,752,850	425,425,955
Other commingled funds:		
Domestic equity	15,223,430	16,003,630
International equity	63,742,368	67,118,746
Domestic fixed income	91,402,640	74,862,678
International fixed income	-	5,928,516
Global fixed income	<u>22,050,129</u>	<u>23,993,161</u>
	192,418,567	187,906,731
Hedge funds:		
Hedge fund of funds	239,213	239,213
International equity	<u>14,430,572</u>	<u>13,116,632</u>
	14,669,785	13,355,845
Private investments:		
Private equity	88,287,385	79,921,281
Venture capital	141,549,434	99,302,827
Distressed debt/mezzanine	31,687,501	34,240,904
Natural resources	82,347,039	82,560,434
Real estate	<u>35,271,005</u>	<u>39,822,017</u>
	379,142,364	335,847,463
 Total investments	 <u>\$1,643,442,484</u>	 <u>\$1,623,128,584</u>

Interest and dividends on non-agency investments are reported in the statements of activity net of custodial management and investment fees of approximately \$2,715,000 and \$2,806,000 for the years ended June 30, 2019 and 2018, respectively.

To achieve its investment objectives, management has controls in place related to initial due diligence, ongoing monitoring and financial reporting of alternative investments. Specific efforts employed by management include ongoing interaction with fund managers, including on-site visits and interviews, telephonic meetings, and ongoing monitoring of portfolio holdings, activities, and performance. Monitoring also includes obtaining and reviewing audited financial statements noting the basis of accounting, disclosures pertaining to the valuation of alternative investments and comparison of audited valuation with the fund's valuation. Management also reviews interim financial information, including details of investment holdings, to obtain an understanding of the underlying investments. Management believes the basis and assumptions for determining the estimated fair values of the Foundation's alternative investments are reasonable at June 30, 2019 and 2018.

5. Fair Value of Financial Assets and Liabilities

Financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis are valued at the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are recorded at fair value, the Foundation considers the principal or most advantageous market in which the Foundation would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

The Foundation applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Observable inputs such as quoted prices in active markets.

Level 2 – Observable similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

Level 1 investment categories

The Foundation invests in equity securities, fixed income obligations and cash equivalents that are publicly traded and readily available in the active markets in which the securities are traded. The Foundation either invests directly in these securities or the investment accounts held by the Foundation, which include these securities and have daily quoted active market prices accessible by the Foundation.

Level 2 investment categories

The Foundation invests in certain commingled funds that are not publicly traded in active markets. While the Foundation has access to a detailed listing of the underlying assets of the fund, the majority of which are publicly traded and readily available in active markets, shares of the funds themselves do not have daily quoted active market prices. Investments in these funds are valued per share based on the market prices of the underlying assets. Additionally, the Foundation has the ability to redeem its investment at the value per share within thirty days of the measurement date. The Foundation also occasionally holds certificates of deposit. The fair value of the certificates of deposit is determined using third-party quotations.

Level 3 investment categories

These funds do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. Because of the inherent uncertainty of valuations of Level 3 investments, their estimated values may differ significantly from the values that would have been used had a ready market for these investments existed, and the difference could be material.

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The Foundation uses the net asset value (NAV) as a practical expedient to determine the fair value of certain investment funds, which are not classified in the fair value hierarchy. Similar to Level 3 investments, estimated investment values using a NAV may differ significantly from the values that would have been used had a ready market for these investments existed, and the difference could be material. Additional information about these investments is provided in the following paragraphs.

Hedge Funds

The Foundation invests in certain equity strategies which, due to lock-ups, are classified as hedge funds. These investments are estimated using the NAV provided by the hedge fund managers as a practical expedient due to varying levels of determinable fair values and potential inability for redemption. Certain hedge funds may permit partial liquidity upon redemption with the remaining illiquid assets possessing no definite schedule for distribution.

The Foundation previously invested in hedge fund of funds that pursue multiple strategies to diversify risks and reduce volatility. These fund of funds have been redeemed or are now in liquidation. Remaining assets from these redeemed vehicles are illiquid with no definite schedule for distribution. The investments are in assets located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are estimated using the NAV provided by the general partner due to the inability for redemption and the lack of market prices.

Private Equity and Venture Capital

The Foundation invests in private equity and venture capital funds that are limited partnerships and not publicly traded. These funds have investments in private companies located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are estimated using the NAV provided by the general partner due to the inability for redemption and the lack of market prices. Distributions are made from the funds as the fund matures. Redemptions are not permitted during the life of the partnerships. Partnership lives are generally 10 years with an option to extend an additional 2 to 3 years. When assets are sold, the proceeds, less any incentives due to the partnership's general partner, are to be distributed to investors.

Distressed Debt/Mezzanine

The Foundation invests in distressed debt, mezzanine, and private credit funds that are limited partnerships and not publicly traded. These funds have investments in private companies located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are estimated using the NAV provided by the general partner due to the inability for redemption and the lack of market prices. Distributions are made from the funds as the fund matures. Redemptions are not permitted during the life of the partnerships. Partnership lives are generally 10 years with an option to extend an additional 2 to 3 years. When assets are sold, the proceeds, less any incentives due to the partnership's general partner, are to be distributed to investors.

Natural Resources

The Foundation invests in energy, timber, infrastructure, and farmland funds that are limited partnerships and not publicly traded. These funds have investments in private natural resource assets located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are estimated using the NAV provided by the general partner due to the inability for redemption and the lack of market prices. Distributions are made from the funds as the funds mature. Redemptions are not permitted during the life of the partnerships. Partnership lives range from 10 to 15 years with an option to extend an additional 2 to 3 years. When assets are sold, the proceeds, less any incentives due to the partnership's general partner, are to be distributed to investors.

Real Estate

The Foundation invests in real estate funds that are limited partnerships and not publicly traded. These funds have investments in properties located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are estimated using the NAV provided by the general partner due to the inability for redemption and the lack of market prices. Distributions are made from the funds as the fund matures. Redemptions are not permitted during the life of the partnerships. Partnership lives range from 8 to 12 years with

West Virginia University Foundation, Inc.
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an option to extend an additional 2 to 3 years. When assets are sold, the proceeds, less any incentives due to the partnership's general partner, are to be distributed to investors.

Unfunded commitments

The following table summarizes the estimated fair value of the Foundation's non-marketable alternatives that have associated unfunded commitments at June 30, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>
Private Equity	\$ 47,719,686	\$ 37,767,189
Natural Resources	46,227,468	20,741,526
Real Estate	21,323,823	26,414,116
Distressed Debt/Mezzanine	16,144,118	7,248,168
Venture Capital	<u>75,377,260</u>	<u>47,096,717</u>
Total	<u>\$ 206,792,355</u>	<u>\$ 139,267,716</u>

Unfunded commitments are drawn down throughout the life of the investment based on the cash needs of each individual limited partnership. Limited partnerships with unfunded commitments have remaining lives of 4 to 14 years. Management anticipates that distributions from existing non-marketable alternatives will provide the liquidity necessary to satisfy remaining unfunded commitments.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no changes in valuation techniques during the current year.

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The following tables present the financial assets and liabilities carried at fair value on a recurring basis, by caption, on the statements of financial position by the valuation hierarchy defined above:

	Fair Value as of June 30, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Money market funds	\$ 86,360,909	\$ -	\$ -	\$ 86,360,909
Separate accounts:				
Domestic equity	38,698,686	-	-	38,698,686
Domestic fixed income	2,187,229	-	-	2,187,229
	<u>40,885,915</u>	-	-	40,885,915
Exchange traded funds:				
Domestic equity	498,348,198	-	-	498,348,198
Domestic fixed income	80,863,896	-	-	80,863,896
	<u>579,212,094</u>	-	-	579,212,094
Mutual funds:				
Domestic equity	-	-	-	-
International equity	163,953,369	-	-	163,953,369
Domestic fixed income	165,266,653	-	-	165,266,653
Real estate	12,350,838	-	-	12,350,838
Natural resources	9,181,990	-	-	9,181,990
	<u>350,752,850</u>	-	-	350,752,850
Other commingled funds:				
Domestic equity	-	15,223,430	-	15,223,430
International equity	-	63,742,368	-	63,742,368
Domestic fixed income	-	91,402,640	-	91,402,640
Global fixed income	-	22,050,129	-	22,050,129
	<u>-</u>	<u>192,418,567</u>	<u>-</u>	<u>192,418,567</u>
*Hedge funds:				
Hedge fund of funds	-	-	-	239,213
International Equity	-	-	-	14,430,572
	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,669,785</u>
*Private investments:				
Private equity	-	-	-	88,287,385
Venture capital	-	-	-	141,549,434
Distressed debt/mezzanine	-	-	-	31,687,501
Natural resources	-	-	-	82,347,039
Real estate	-	-	-	35,271,005
	<u>-</u>	<u>-</u>	<u>-</u>	<u>379,142,364</u>
Total investments	<u>1,057,211,768</u>	<u>192,418,567</u>	<u>-</u>	<u>1,643,442,484</u>
Beneficial interests in external trusts	<u>-</u>	<u>-</u>	<u>40,343,008</u>	<u>40,343,008</u>
Total assets	<u>\$1,057,211,768</u>	<u>\$ 192,418,567</u>	<u>\$ 40,343,008</u>	<u>\$1,683,785,492</u>
Liabilities:				
Annuities payable and unitrusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,977,061)</u>	<u>\$ (14,977,061)</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,977,061)</u>	<u>\$ (14,977,061)</u>

*Investments measured using net asset value per share are not classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the hierarchy to the statement of financial position.

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	Fair Value as of June 30, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Money market funds	\$ 34,741,833	\$ -	\$ -	\$ 34,741,833
Separate accounts:				
Domestic equity	39,172,325	-	-	39,172,325
Domestic fixed income	2,434,136	-	-	2,434,136
	<u>41,606,461</u>	-	-	41,606,461
Exchange traded funds:				
Domestic equity	501,831,726	-	-	501,831,726
Domestic fixed income	82,412,570	-	-	82,412,570
	<u>584,244,296</u>	-	-	584,244,296
Mutual funds:				
Domestic equity	20,889,616	-	-	20,889,616
International equity	173,790,738	-	-	173,790,738
Global equity	43,714,402	-	-	43,714,402
Domestic fixed income closed end	2,677,944	-	-	2,677,944
Domestic fixed income	127,873,772	-	-	127,873,772
Real estate	9,384,146	-	-	9,384,146
Natural resources	47,095,337	-	-	47,095,337
	<u>425,425,955</u>	-	-	425,425,955
Other commingled funds:				
Domestic equity	-	16,003,630	-	16,003,630
International equity	-	67,118,746	-	67,118,746
Domestic fixed income	-	74,862,678	-	74,862,678
International fixed income	-	5,928,516	-	5,928,516
Global fixed income	-	23,993,161	-	23,993,161
	<u>-</u>	<u>187,906,731</u>	<u>-</u>	<u>187,906,731</u>
*Hedge funds:				
Hedge fund of funds	-	-	-	239,213
International Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,116,632</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,355,845</u>
*Private investments:				
Private equity	-	-	-	79,921,281
Venture capital	-	-	-	99,302,827
Distressed debt/mezzanine	-	-	-	34,240,904
Natural resources	-	-	-	82,560,434
Real estate	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,822,017</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>335,847,463</u>
Total investments	1,086,018,545	187,906,731	-	1,623,128,584
Beneficial interests in external trusts	<u>-</u>	<u>-</u>	<u>38,641,116</u>	<u>38,641,116</u>
Total assets	<u>\$1,086,018,545</u>	<u>\$ 187,906,731</u>	<u>\$ 38,641,116</u>	<u>\$1,661,769,700</u>
Liabilities:				
Annuities payable and unitrusts	\$ -	\$ -	\$ (15,559,749)	\$ (15,559,749)
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,559,749)</u>	<u>\$ (15,559,749)</u>

*Investments measured using net asset value per share are not classified in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the hierarchy to the statement of financial position.

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The following table illustrates the activity of Level 3 assets and liabilities for the year ended June 30, 2019:

	<u>Beneficial Interests in External Trusts</u>	<u>Annuities Payable and Unitrusts</u>
Balance, July 1, 2018	\$ 38,641,116	\$ 15,559,749
Investment gains	1,701,892	-
Annuity losses	-	143,537
Income	-	1,256,950
Contributions	-	199,898
Distributions	-	<u>(2,183,073)</u>
Balance, June 30, 2019	<u>\$ 40,343,008</u>	<u>\$ 14,977,061</u>

The following table illustrates the activity of Level 3 assets and liabilities for the year ended June 30, 2018:

	<u>Beneficial Interests in External Trusts</u>	<u>Annuities Payable and Unitrusts</u>
Balance, July 1, 2017	\$ 39,631,174	\$ 15,964,148
Investment losses	(2,999,443)	-
Annuity gains	-	(231,471)
Income	-	1,348,844
Contributions	2,009,385	606,788
Distributions	-	<u>(2,128,560)</u>
Balance, June 30, 2018	<u>\$ 38,641,116</u>	<u>\$ 15,559,749</u>

There were no transfers among Level 1, Level 2, or Level 3 assets during the years ended June 30, 2019 and 2018. When transfers occur, they are recognized at the end of the reporting period.

6. Endowment

The Foundation's endowment consists of over 3,000 individual endowment funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of relevant law

The Board of Directors of the Foundation, based upon the advice of counsel, has interpreted the Uniform Prudent Management of Institutional Funds Act (the "Act" or "UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund

West Virginia University Foundation, Inc.
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- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) The investment policies of the Foundation

Return objectives and risk parameters

The Foundation has adopted investment and spend policies for endowment assets that are intended to provide an ongoing stream of funding to programs supported by the endowment. Endowment assets include assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a high level of total investment return consistent with a prudent level of portfolio risk. As such, the investment objective of the endowment investment assets is to achieve at least a positive return (greater than zero) after deduction for inflation and spending over rolling five-year periods.

Strategies employed for achieving objectives

To satisfy its long-term return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments, including private equities, to achieve its long-term return objectives within prudent risk constraints.

Spending policy and related investment objectives

The Foundation utilizes a “banded inflation” spend policy for the private endowment, which considers the prior year’s dollar amount adjusted for inflation (CPI). This calculated spend dollar amount must be between 3.25% and 4.25% of market value at December 31 of the fiscal year. This policy was established in accordance with UPMIFA, which in certain circumstances allows for a reduced appropriation from an endowment fund when the current fair value may occasionally fall below original gift value. The Foundation also considers the six factors previously listed. Over the long term, the Foundation expects the spend policy to allow its endowment to grow at a rate that meets the needs of inflation, spending and fees. The Foundation’s effective spend rate was 4.0% in 2019 and 4.1% in 2018.

Effective July 1, 2020 the Foundation’s method to determine the calculated spend dollar amount will change. The spend band will range from 3% to 4% of market value compared to the current band of 3.25% to 4.25% with a graduated spend payout based on fund position compared to the original gift value. In addition, the Foundation contemporaneously reviews endowment spend based upon market, inflation and other factors deemed appropriate under the circumstances.

Included in the endowment totals are research trust funds from the state of West Virginia totaling \$39,863,977 and \$38,196,980 at June 30, 2019 and 2018, respectively. The spend policy for these funds is based upon distribution of earnings as defined in West Virginia Code for Directed Research Endowments. See Note 16 for additional information related to these funds.

Funds with deficiencies

From time to time, due to market fluctuation the fair value of certain endowment funds may fall below the original gift value. These funds are considered “underwater” funds. The Foundation has interpreted UPMIFA to permit spending from underwater endowments with prudent measures required by law.

The following presents endowed funds with deficiencies principally resulting from unfavorable market fluctuations:

	<u>2019</u>	<u>2018</u>
Fair value	\$ 7,679,354	\$ 6,297,598
Original gift value	<u>(7,730,444)</u>	<u>(6,391,071)</u>
Deficiency	<u>\$ (51,090)</u>	<u>\$ (93,473)</u>

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The following presents endowment net asset composition by fund type as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		
		Quasi Endowment	Endowment	Total
Board designated endowment funds	\$ 11,003,123	\$ -	\$ -	\$ 11,003,123
Original donor restricted gift amounts	-	12,493,833	493,341,657	505,835,490
Accumulated investment gains	-	4,127,303	106,005,129	110,132,432
Invested endowment assets managed internally	11,003,123	16,621,136	599,346,786	626,971,045
Invested assets managed externally	-	-	8,093,851	8,093,851
External trusts at fair value	-	-	40,343,008	40,343,008
Total invested endowment assets	11,003,123	16,621,136	647,783,645	675,407,904
Non-invested endowed assets	-	-	57,715,223	57,715,223
Endowment liabilities	-	-	(632,154)	(632,154)
Endowment net assets	<u>\$ 11,003,123</u>	<u>\$ 16,621,136</u>	<u>\$ 704,866,714</u>	<u>\$ 732,490,973</u>

The following presents changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		
		Quasi Endowment	Endowment	Total
Invested endowment assets, beginning of year	\$ 10,986,785	\$ 30,889,160	\$ 636,029,090	\$ 677,905,035
Investment return, net	436,534	376,688	13,653,932	14,467,154
Contributions	-	-	19,456,853	19,456,853
Appropriation for expenditure	(420,196)	(14,644,712)	(21,356,230)	(36,421,138)
Invested endowment assets, end of year	11,003,123	16,621,136	647,783,645	675,407,904
Non-invested endowed assets	-	-	57,715,223	57,715,223
Endowment liabilities	-	-	(632,154)	(632,154)
Endowment net assets	<u>\$ 11,003,123</u>	<u>\$ 16,621,136</u>	<u>\$ 704,866,714</u>	<u>\$ 732,490,973</u>

West Virginia University Foundation, Inc.
Notes to Financial Statements

The following presents endowment net asset composition by fund type as of June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Quasi Endowment</u>	<u>Endowment</u>	<u>Total</u>
Board designated endowment funds	\$ 10,986,785	\$ -	\$ -	\$ 10,986,785
Original donor restricted gift amounts	-	18,893,760	469,732,297	488,626,057
Accumulated investment gains	-	11,995,400	119,741,566	131,736,966
Invested endowment assets				
Managed internally	10,986,785	30,889,160	589,473,863	631,349,808
Invested assets managed externally	-	-	7,914,111	7,914,111
External trusts at fair value	-	-	38,641,116	38,641,116
Total invested endowment assets	10,986,785	30,889,160	636,029,090	677,905,035
Non-invested endowed assets	-	-	52,855,073	52,855,073
Endowment liabilities	-	-	(560,800)	(560,800)
Endowment net assets	<u>\$ 10,986,785</u>	<u>\$ 30,889,160</u>	<u>\$ 688,323,363</u>	<u>\$ 730,199,308</u>

The following presents changes in endowment net assets for the year ended June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Quasi Endowment</u>	<u>Endowment</u>	<u>Total</u>
Invested endowment assets, beginning of year	\$ 10,678,664	\$ 34,335,831	\$ 595,501,938	\$ 640,516,433
Investment return, net	758,626	2,435,430	38,581,851	41,775,907
Contributions	-	-	24,046,620	24,046,620
Appropriation for expenditure	(450,505)	(5,882,101)	(22,101,319)	(28,433,925)
Invested endowment assets, end of year	10,986,785	30,889,160	636,029,090	677,905,035
Non-invested endowed assets	-	-	52,855,073	52,855,073
Endowment liabilities	-	-	(560,800)	(560,800)
Endowment net assets	<u>\$ 10,986,785</u>	<u>\$ 30,889,160</u>	<u>\$ 688,323,363</u>	<u>\$ 730,199,308</u>

West Virginia University Foundation, Inc.
Notes to Financial Statements

7. Land, Building, and Equipment

A summary of land, building, and equipment and accumulated depreciation at June 30 follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,610,860	\$ 2,610,860
Building	31,112,100	31,008,280
Equipment	<u>4,466,938</u>	<u>4,095,917</u>
	38,189,898	37,715,057
Accumulated depreciation	<u>(21,407,478)</u>	<u>(20,118,697)</u>
Land, building and equipment, net	<u>\$ 16,782,420</u>	<u>\$ 17,596,360</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$1,288,782 and \$1,316,063, respectively.

The Foundation owns a seven-floor office building located at One Waterfront Place. The Foundation occupies one floor of the building and leases the remainder of the building to the University through an operating lease with the West Virginia University Board of Governors on behalf of the University. The lease runs through May 31, 2031; however, it is cancelable upon 30-days' written notice. The net book value of the property leased was \$9,443,633 and \$10,304,183 as of June 30, 2019 and 2018, respectively. During 2019 and 2018, the Foundation recorded approximately \$2,000,000 of lease revenue related to this lease. Future lease payments for each of the five succeeding fiscal years are approximately \$2,000,000 each year.

8. Other Assets

Other assets consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash surrender value of life insurance	\$ 3,596,130	\$ 3,609,312
Real estate and other assets	<u>2,672,322</u>	<u>2,564,142</u>
	<u>\$ 6,268,452</u>	<u>\$ 6,173,454</u>

9. Split-Interest Agreements

The Foundation occasionally enters into split-interest agreements with donors, which consist primarily of charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. These agreements provide either fixed annual payments or fixed annual returns to the original donor or a designated beneficiary. Payment streams are valued at the present value of the expected future obligations after considering the applicable discount rate and actuarial mortality assumptions. Fixed payout percentages range from 4.2% to 18% at June 30, 2019 and at June 30, 2018, respectively.

The Foundation received contributions of \$367,986 and \$1,075,598 to establish new split-interest agreements for the years ended June 30, 2019 and 2018, respectively. Total assets resulting from split-interest agreements were \$31,677,777 and \$32,275,863 at June 30, 2019 and 2018, respectively. These assets are included in investments carried at fair value on the statements of financial position.

West Virginia University Foundation, Inc.
Notes to Financial Statements

10. Net Assets

Net assets without donor restrictions are available for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Board designated endowment funds	\$ 11,003,123	\$ 10,986,785
Board designated Foundation reserves	17,719,255	17,390,071
Financial assets available for general use	12,347,488	7,836,067
Land, building, and equipment, net of depreciation	16,782,420	17,596,360
Receivables and other	3,523,282	5,652,377
Notes payable	<u>(17,226,990)</u>	<u>(18,281,034)</u>
	<u>\$ 44,148,578</u>	<u>\$ 41,180,626</u>

Net assets with donor restrictions are available for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Student aid	\$ 300,888,499	\$ 290,309,351
Faculty and staff	173,972,520	172,250,265
Academics	183,322,449	162,347,243
Research	86,653,935	87,973,432
Buildings and equipment	53,972,004	51,446,990
Departmental discretion	27,527,807	24,894,371
Pending donor designation	12,829,891	12,317,513
Public service	26,516,345	24,259,967
Other	<u>11,659,930</u>	<u>14,343,153</u>
	<u>\$ 877,343,380</u>	<u>\$ 840,142,285</u>

11. Line of Credit

The Foundation has an unsecured line of credit with a financial institution with maximum borrowing capacity of \$10,000,000. As of June 30, 2019 and 2018, there was no amount outstanding on the line. This line of credit bears interest at a variable rate based on the New York Prime rate plus 3.375% with a minimum interest rate of 4.48% and a maximum interest rate of 10%, which is payable on demand. This line of credit renews on an annual basis subject to the financial institution's review of the Foundation's financial statements and is expected to be renewed on similar terms.

12. Notes Payable

Promissory note

In February 2012, the Foundation entered into a promissory note with the Big Twelve Conference ("Conference") in the amount of \$10,000,000. Beginning on June 30, 2016, \$5,000,000 of the note (the Payable Amount) is being repaid through private athletic funds on deposit with the Foundation and/or reductions of \$1,000,000 per year for five years in future Big Twelve Conference revenues distributable to West Virginia University. On June 30, 2019, a \$2,000,000 repayment was made to the Conference reducing the current total note balance to \$5,000,000. The remaining \$5,000,000 (the Forgivable Amount) is to be forgiven on June 30, 2020. However, if there is an event of default under the terms of the note, the Foundation shall become obligated to pay the Forgivable Amount, together with accrued interest thereon from the date of the note. Interest is due on the Payable Amount at the Applicable Federal Rate (AFR) in effect each June 30. The Foundation made the required interest payments of \$57,200 (2.86%

West Virginia University Foundation, Inc.
Notes to Financial Statements

of AFR) and \$58,800 (1.96% AFR) for the years ended June 30, 2019 and 2018, respectively. Interest on the Forgivable Amount is deferred and is payable only upon event of default.

Mortgage note

In May 2012, the Foundation entered into a \$24,000,000 loan agreement with a West Virginia bank. The loan proceeds were used to fund the pay-off of the 2002 Series B bonds used to finance floors 1 - 6 of One Waterfront Place. The loan is payable in monthly installments of \$136,492 through May 1, 2032. The payments include principal and interest at the fixed rate of 3.28%. The loan is secured by a credit line deed of trust on One Waterfront Place, an assignment of leases on One Waterfront Place, and a security agreement encumbering the net unrestricted assets of the Foundation. The loan balance as of June 30, 2019 and 2018 was \$17,226,990 and \$18,281,034, respectively. Interest expense for the years ended June 30, 2019 and 2018 was \$583,866 and \$617,832, respectively.

Debt service for the note payable for the fiscal years ending June 30 is as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
2020	\$ 1,089,141	\$ 548,769	\$ 1,637,910
2021	1,125,407	512,503	1,637,910
2022	1,162,880	475,030	1,637,910
2023	1,201,602	436,308	1,637,910
2024	1,241,612	396,298	1,637,910
Thereafter	<u>11,406,348</u>	<u>1,560,437</u>	<u>12,966,785</u>
	<u>\$ 17,226,990</u>	<u>\$ 3,929,345</u>	<u>\$ 21,156,335</u>

Notes payable as of June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Promissory note	<u>\$ 5,000,000</u>	\$ 7,000,000
Mortgage note	<u>17,226,990</u>	<u>18,281,034</u>
Total notes payable	<u>\$ 22,226,990</u>	<u>\$ 25,281,034</u>

The carrying amounts of the Foundation's notes payable approximate their fair value at June 30, 2019 and 2018.

13. Retirement Benefits and Deferred Compensation

The Foundation has a contributory retirement plan covering all full time and part time employees. Employer contributions are based on a percentage of salary applied as premiums on regular retirement annuity contracts owned by each employee. Employees are immediately vested. Retirement expense was \$1,051,445 and \$1,045,204 in 2019 and 2018, respectively.

The Foundation has several supplemental retirement or deferred compensation plans covering certain employees of the University or Foundation that provide for payments upon retirement, death, or disability. The liability associated with these plans was \$1,966,875 and \$1,613,726 as of June 30, 2019 and 2018, respectively. The liability is recorded at the present value of the estimated future payments. These plans are funded through gifts, life insurance proceeds and other designated funds. Deferred compensation expense was \$660,335 and \$63,522 in 2019 and 2018, respectively.

West Virginia University Foundation, Inc.
Notes to Financial Statements

14. University Support

University directed fund raising costs of approximately \$4,284,651 and \$4,526,573 in 2019 and 2018, respectively, are included in University support in the statements of activity.

15. Funds Held in Custody for Others

The Foundation invests funds for West Virginia University and certain organizations affiliated with the University. These investments are held in agency relationships and are not net assets of the Foundation.

A summary of the liability for agency investments as of June 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
West Virginia United Health System, Inc.	\$ 713,921,026	\$ 739,557,386
West Virginia University	139,309,895	107,511,897
WVU Alumni Association, Inc.	4,330,371	4,211,894
Other	<u>566,312</u>	<u>387,107</u>
	<u>\$ 858,127,604</u>	<u>\$ 851,668,284</u>

16. Subsequent Events

On July 3, 2019 the Foundation entered into an agreement with West Virginia University under which the Research Trust Funds (State Match) pool will be managed under the University Tax ID number. The Research Trust Funds (State Match) pool was formerly managed under the Foundation tax ID number. This pool will continue to be managed as a perpetual endowment and will become a participating member of the University combined investment portfolio held by the Foundation. Previously the Research Trust Funds (State Match) pool was managed by the Foundation as a stand-alone portfolio.

The Research Trust Funds (State Match) pool totaled \$39,863,977 as of June 30, 2019 and is included in net assets with donor restrictions. Beginning fiscal year June 30, 2020 the Research Trust Funds pool (State Match) will be treated as an agency fund and carried as a liability under funds held in custody for others.

Supplementary Information



Independent Auditors' Report on Supplementary Information

Board of Directors
West Virginia University Foundation, Inc.
Morgantown, West Virginia

We have audited the financial statements of West Virginia University Foundation, Inc. (the "Foundation") as of and for the years ended June 30, 2019 and 2018, and our report thereon dated September 23, 2019, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The reconciliation of contributions information for the years ended June 30, 2019 and 2018 is presented on page 28 for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management, was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dixon Hughes Goodman LLP

**Charleston, West Virginia
September 23, 2019**

West Virginia University Foundation, Inc.
Reconciliation of Contributions
Years Ended June 30, 2019 and 2018

The schedule below reconciles Foundation fundraising totals as reported in the Foundation's annual report (not presented herein) with contribution revenue determined in accordance with U.S. GAAP as reported in the accompanying Statements of Activity.

	Years Ended June 30,	
	2019	2018
	<u> </u>	<u> </u>
Contributions:		
Foundation fundraising totals	\$ 177,396,953	\$ 161,029,056
Bequest expectancies	(39,373,300)	(43,252,625)
Changes in contributions receivable, net	(4,203,862)	(3,239,154)
Noncash contributions received directly by the University	(4,852,558)	(13,688,251)
Amounts recorded as agency liability	(33,310,448)	(6,867,141)
Contributions from perpetual trusts reclassified to interest income	(2,363,488)	(2,378,296)
Changes in life income gifts/valuations	90,003	(426,111)
Amounts reported as other revenue	<u>(14,092,888)</u>	<u>(11,818,508)</u>
Contributions per Statements of Activity	<u>\$ 79,290,412</u>	<u>\$ 79,358,970</u>